

# Pottinger

PERSPECTIVES

Bringing ideas, people and data together to change the world

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**HELP!**

## Australia's Leadership Crisis



Thirty months ago, I wrote about a crisis in Australian leadership. Though political turmoil was the headline of the day, my focus was on the many lost opportunities to transform leading Australian corporates into global success stories. I also lamented the repeated failure to take commercial advantage of the country's exceptional track record in scientific invention and technological innovation. Wherever you are in the world, Australia's experience holds powerful lessons about the importance of continued innovation and investment, no matter how successful your country (or company) may be.

At the time, it seemed evident to me that Australia's deep-seated love of the status-quo and propensity to favour "She'll be right, mate!" short-termism was a recipe for disaster. The wariness of offshore investment – even when the Australian dollar was above parity with the greenback – seemed dangerously insular. I urged Australia's voters and shareholders to speak out and to demand more of their representatives in politics and the corporate world. I called for the nation to follow a bolder, longer-term vision, so that we could better capitalise on the country's many strengths. Successful companies often face the same temptation – to stick with the highly profitable business they know, rather than risking too much investing in opportunities that will take five to ten years to realise.

Over the last 18 months, global tech behemoths have continued to attack old business models in industry after industry,

from energy to banking to motor vehicles, creating huge value in the process. As one example, Tesla's share price has nearly doubled. Its market value is now US\$58bn (or nearly A\$75bn), more than Ford or General Motors. And, like most organisms at the top of the food chain, the largest companies have significant power. A single tweet from Elon Musk has reshaped the entire debate on renewable energy in Australia. Over the same period, many Australian companies have struggled to do much more than talk about innovation, despite (or perhaps because of) their huge profitability.

#### **So, where is Australia now?**

On the positive side of the ledger, Australia's first great B2B tech success story Atlassian has listed on NASDAQ. It's reached a market value of A\$10bn and, for the present at least, remains headquartered in Sydney.

More start-ups are following in its footsteps. I am delighted to say that we have seen a number of these achieve early traction in their home market. This is in marked contrast to Atlassian's experience, where it sold its products in a dozen other countries before making its first sale at home. In other words, there are positive signs that large Australian companies are getting a little better at being early adopters of new technologies. This is critical if we are to nurture a dynamic local start-up scene.

Meanwhile Cochlear, the world's leading hearing implant business, continues its global success, but remains hamstrung by painfully slow domestic approval processes for medical devices. UNSW's quantum computing program continues to make good progress in its race to build the world's first quantum computer, though so far very little appears to have been done to position the nation to win even a small part of the multi-





trillion-dollar industry that will emerge.

These are not the only success stories, but even a complete list would be far, far shorter than in other large economies. This is concerning, as IP-rich businesses of this nature will be a critical source of employment opportunities over the longer term.

On the other side of the ledger, the recent run of scandals at the top end of town is worrying, to say the least. Commonwealth Bank of Australia, the country's largest financial institution, has been embroiled in

same mistake, including the Deputy Prime Minister, but for the present at least remain in the parliament.

In short, it's been a pretty bad few months for governance in Australia.

Financial indicators don't look much better. Whilst stock markets in the USA, UK, Europe and Japan are at 15-year highs, the ASX All Ordinaries index is at around 5,700, still well short of its pre-financial crisis peak of 6800. And, despite 25 years of uninterrupted economic growth, Australia can't balance its

growth remains fragile. Australian personal borrowings are now over 120% of GDP, amongst the highest in the world, and housing affordability is low. The potential for the next recession to be particularly painful, should economic growth falter, appears high.

More broadly, old-economy businesses dominate Australia's economy and its stock-market. Most of the nation's investments are tied up in the shares of financial institutions, resources companies, bricks and mortar retailers and property companies. For every multi-national IP-rich company such as CSL, there are a dozen or more old economy stalwarts. If you want exposure to technology superstars, you have to invest offshore.

The risks are increasing by the year.

Amazon has entered the Australian market and is predicted to wreak havoc on traditional retailers. Any CEO in the sector that suggests the American retail giant-killer is not a huge existential threat simply doesn't appreciate what they are dealing with. Sydney, Melbourne and Brisbane each represent a perfect market for Amazon, with 10 million people between them served by highly efficient, low-cost third-party distribution networks. Amazon will notice the local competition in the same way that a 100-ton road train notices a termite on the road.

Amazon has also brought yet another

## *IP-rich businesses of this nature will be a critical source of employment opportunities over the longer term*

a substantial money-laundering case. The deputy commissioner of the Australian Tax Office has been brought down by fraud. CPA Australia, one of Australia's peak professional bodies for accountants, has terminated its CEO Alex Malley, after allegations related to financial dealings and revelations that the organization had invested heavily in marketing to support the CEO's personal profile. And in Canberra, several federal politicians have been forced to resign various positions, having run for office as dual nationals, a breach of Australia's Constitution. Others have admitted to the

books. Federal government gross debt has surged past \$500bn, with the chances of fiscal balance receding further into the future with each annual budget.

If Australian companies and Australian governments can't deliver winning results in the current highly favourable economic weather, what will happen when the outlook shifts? Though the country's economic outlook appears sound for the present, there are several reminders that the economic growth party must eventually end. Real wage growth continues to slow, despite low unemployment. Consumer spending





streaming video competitor, Amazon Prime, alongside Netflix. This will make life harder than ever for traditional media companies. Channel Ten is already in voluntary administration. Ironically, as more business and entertainment moves online, Australia's technology backbone, the NBN, is singularly failing to deliver.

Now over a decade since its launch, Australia's internet speed ranking has

This is a direct result of disjointed, ill-considered energy policy over the last decade, not to mention poor risk management by gas-fired power generators who apparently overlooked the inevitable demand for gas from the owners of large gas export facilities. Ironically, these high costs have made Australia more attractive than ever for renewable energy investors – we estimate that at least ten billion dollars of

## *Australia's highly profitable economy – home to some of the most profitable financial institutions in the world*

declined to 50th, and the country appears further away from fibre-to-the-home connectivity than ever. Bottlenecks are already becoming evident in existing networks, particularly around peak viewing times for new releases and major sporting events. Those that know their physics understand that neither copper nor wireless networks are sustainable as demand for bandwidth grows. Where New Zealand has already ventured, surely Australia can follow?

Energy costs continue to spiral out of control, adding cost for many businesses.

international capital is available to support the renewal of Australia's energy sector.

In financial services, global technology companies such as Apple and Google are set to Hoover up a significant tranche of the payments industry, one of the most profitable, albeit invisible, elements of bank profitability. These companies can all leverage global scale, and global systems, to compete in any market they choose. Most have surplus cash balances greater than the entire market value of CBA, Australia's largest listed company.

Australia's highly profitable economy – home to some of the most profitable financial institutions in the world – is incredibly attractive. And Australian consumers have been some of the most avid adopters of Apple's technology in the world. So, expect to see a long, determined push by these global behemoths to disrupt Australia's exceptionally profitable banking sector.

Meanwhile, without new economy businesses, financial returns on Australia's stock-market will be depressed compared to countries such as the US or UK. Worse, over longer time horizons, the nation will struggle to generate sufficient employment opportunities. As we stare into these rather mouldy tea-leaves, remember that the robot revolution is already upon us. Machine learning and artificial intelligence are enabling computers to automate decision-making, not just tasks.

This will lead to dramatic productivity improvements in many industries, particularly old economy businesses such as financial services. There is every chance that this will translate into a significant loss of jobs. The evidence from other countries is that new jobs in caring and creative industries will not emerge rapidly enough, and will not be





well paid enough, to make up the difference. So, investment in Australia's future is more important than ever.

For those that may think I'm just a corporate back seat driver, know that we've taken our own medicine. We've invested a significant part of our corporate and personal capital in building business activities offshore. We've restructured the Pottinger business to be dual-headquartered in the USA and Australia. We've reshaped our service offering to reflect the ever more dynamic and unpredictable environment. We've corporatized our predictive analytics expertise into a B2B tech start-up based in New York. We're connecting capital from major offshore VC funds with some of Australia's most innovative entrepreneurs. We're working with some of the world's leading thinkers to quantify how far and how fast robotization will impact individual industry sectors and countries. We're also actively engaged in bringing major infrastructure projects to life offshore and in Australia, including significant renewable energy projects. In short, we've seen that the opportunities are there, for those who are prepared not simply to look, but also to leap.

Australian companies and governments

need to do the same. No-one has built a successful economy by dragging a country back in time. Significant, determined efforts must be made to adopt new technologies, to invest in new economy businesses, and to position Australia for a changing world. This means embracing the shift to renewable energy, and realizing that this will drive energy costs down, not up. It means finding a way to untangle the Gordian knot that the NBN has become, to pivot to an end-to-end fibre architecture in the near term, bringing in private sector capital as rapidly as possible. It means introducing a new investment regime that incentivizes onshore capital formation in IP-rich businesses, and ensures the resultant jobs stay onshore for as long as possible. It means placing much greater emphasis on protecting the environment in Australia, given its central importance to long term growth industries such as agriculture and tourism. And, more than anything else, it means resisting the temptation of short-term expediency, and making every decision with both eyes focused firmly on the long term. And, if the status quo feels a little too comfortable, remember this: the incumbent ruling classes have always lived well until the night of the revolution.

The urgency to address these challenges is greater than ever. Those that embrace the need to connect short term action with long term objectives will see that this reduces risk, improves returns, and makes their day to day decision-making much more straightforward. Those that delay will see that the longer-term goals become steadily harder to achieve, and short-term decisions become progressively harder to make.

This is revolutionary thinking, and Australia desperately needs revolutionaries to drive a change in mindset. The current generation of leaders needs to set a much bolder path, or step aside and let the next generation do so. For inspiration, remember that Google's founders thought long term, and succeeded in building one of the world's most valuable businesses in under twenty years. In contrast, short termism has failed to deliver for many others, and it will fail you too. **P**

Nigel Lake is co-founder of Pottinger and Atomli, and author of *The Long Term Starts Tomorrow*.

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## Latest issue from Pottinger Perspectives:



Disruptors are eating the status quo. Innovators are the flavour of the month. B2B tech companies are valued at 30x revenue.

Easy to write, but much harder to do. We've seen amazing businesses brought to life, but we've also seen extraordinary technologies fail. Over the last decade, we've identified twelve factors that are critical to success. If a B2B startup doesn't have them, then don't invest in it, don't work for it, and certainly don't buy it. Whether you are a startup, investor or corporate innovator, we want you to win, so we've shared our experiences in Entrepreneur or GoneTreprenuer?

Can we help you unlock value from internal IP? Or magnetise your corporate incubator so the best startups come to you? Or unleash your startup in the USA?

[http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger\\_perspective\\_entrepreneur\\_or\\_gonetreprenuer.pdf](http://www.pottinger.com/uploads/1/9/5/1/19512909/pottinger_perspective_entrepreneur_or_gonetreprenuer.pdf)

### About Pottinger

Pottinger is a multiple award-winning strategic and financial advisory firm.

We de-risk M&A transactions and strategic transformations by integrating strategic insight, transaction expertise and data analytics, enabling leaders to make decisions that stand the test of time.

We work with clients who are ready to think differently and act differently. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice
- Risk, sustainability and related decision-making

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our experience covers most of the world's larger economies, and we enjoy the complexity of assignments that extend across borders and cultures.

We are regarded as an industry leader in productivity and as a role model for investment in our people. We have been recognised by the Australian Government's Workforce and Productivity Agency as a benchmark for effective skills development and for seven consecutive years we have been awarded "Recommended Employer" by the Australian Business Awards.



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